

Highlights

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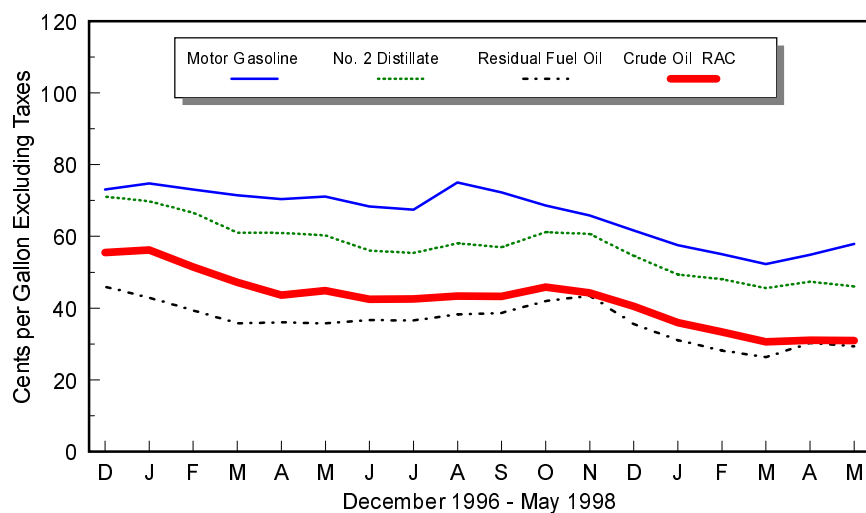
With production cuts agreements among major exporting nations providing a degree of stability to international markets, world crude oil prices steadied during May. Despite the comparative calm, the ongoing over-supply of crude oil coupled with soft demand in major markets curbed any significant gain in price levels. While wellhead output from exporting countries party to the "Riyadh" agreement (in effect since April 1) decreased again during May, preliminary data suggest global supply continued to outstrip demand during May, extending the imbalance of recent months. In an effort to further address lethargic prices, representatives from Saudi Arabia, Venezuela, and Mexico met in Amsterdam and pledged to cut production by 450,000 barrels per day beginning July 1. However, reports of crude oil storage facilities bordering on saturation levels in crucial international markets continued throughout the month, offsetting much of the intended effect of the newly proposed cuts. In a development interpreted as having adverse repercussions on prices given current market conditions, United Nations Secretary General Kofi Annan approved Iraq's new aid distribution plan required for continuation of the expanded U.N. "oil-for-food" deal. The approval paves the way for a fourth term in the program and permits Iraq to export \$5.26 billion worth of crude oil during the next 180-day period.

Other political developments secondary to the fundamental supply and demand factors currently driving crude oil markets included turmoil in Asia, a region whose economic woes contributed significantly to depressed world crude oil prices. Over the

course of May, India and Pakistan each conducted tests involving nuclear devices. Other nations and international organizations condemned the tests, and the United States imposed formal sanctions upon both countries. In Indonesia, a member of the Organization of Petroleum Exporting Countries (OPEC), civil strife led to the resignation of President Suharto after 32 years in office. By the close of the month, it was unclear to what extent repercussions from the upheaval would affect the country's political and economic infrastructure.

As the driving season began in the United States, brimming stocks of crude oil and finished products continued to cause prices to decline throughout the country. Supply data show that monthly average stocks of crude oil, finished gasoline, and distillate fuels all rose during May. Crude oil proved to be the most vulnerable element in the petroleum products complex, with prices sustaining the most significant fluctuations. Much of the price volatility for crude oil

Figure HL1. Crude Oil and Petroleum Product Wholesale Prices



Sources: Energy Information Administration. Crude oil refiner acquisition cost: Form EIA-14, "Refiners' Monthly Cost Report"; petroleum product prices: Form EIA-782A, "Refiners'/Gas Plant Operators' Monthly Petroleum Product Sales Report."

Table HL1. U.S. Refiner Prices and Volumes of Petroleum Products

(Prices: Cents per Gallon Excluding Taxes, Volumes: Million Gallons per Day)

Products	Sales to End Users						Sales for Resale					
	May 1998		April 1998		May 1997		May 1998		April 1998		May 1997	
	Price	Volume	Price	Volume	Price	Volume	Price	Volume	Price	Volume	Price	Volume
Motor Gasoline	71.0	65.6	67.4	64.7	84.5	58.2	57.9	310.0	54.9	310.5	71.1	300.3
Conventional	68.7	40.7	66.0	39.7	82.8	37.1	55.1	211.0	52.4	213.4	68.9	209.4
Regular	64.9	28.5	62.1	27.7	79.0	26.1	53.1	162.0	50.5	165.4	66.9	161.6
Midgrade	74.0	6.4	71.3	6.2	88.3	5.9	58.8	16.2	56.2	16.0	72.5	17.2
Premium	81.6	5.8	79.1	5.8	95.7	5.1	63.5	32.7	60.6	32.0	77.5	30.6
Oxygenated	74.1	2.0	69.3	2.1	91.5	1.7	62.9	5.5	59.0	5.6	79.3	3.4
Regular	71.5	1.6	66.6	1.7	89.2	1.4	61.7	4.2	57.8	4.3	78.0	2.7
Midgrade	80.0	0.2	76.0	0.3	96.8	0.2	64.1	0.8	60.3	0.8	82.1	0.3
Premium	89.2	0.2	85.1	0.2	105.5	0.1	71.5	0.5	67.7	0.5	86.6	0.3
Reformulated	74.8	22.9	69.7	22.8	87.2	19.4	64.0	93.6	60.4	91.5	76.1	87.6
Regular	70.4	15.2	65.1	15.2	82.5	12.5	60.7	63.1	57.2	61.2	72.3	57.9
Midgrade	79.9	3.8	74.9	3.7	92.2	3.4	68.4	10.6	63.6	10.5	80.5	11.1
Premium	87.3	3.9	82.8	3.9	99.3	3.4	72.3	19.9	68.7	19.8	85.1	18.6
Aviation Gasoline	99.9	0.2	98.6	0.2	115.7	0.2	94.0	0.7	90.9	0.7	108.2	0.7
Kerosene-Type Jet Fuel	46.7	49.4	46.6	48.6	58.8	49.2	46.9	11.0	46.6	12.7	59.4	10.2
Propane (Consumer Grade)	36.2	2.3	41.5	3.0	46.5	2.9	29.3	25.0	30.3	29.1	36.9	24.8
Kerosene	56.0	0.1	56.7	0.2	68.4	0.3	45.8	1.1	46.3	1.7	61.1	1.0
No. 1 Distillate	53.0	0.3	56.3	0.3	64.2	0.2	56.4	0.2	57.6	0.3	69.7	0.3
No. 2 Distillate	51.4	23.7	52.3	23.6	63.7	25.5	46.1	115.8	47.4	116.9	60.3	116.4
No. 2 Fuel Oil	48.5	3.2	53.0	2.4	62.9	2.7	43.4	28.4	44.9	27.3	58.8	26.1
No. 2 Diesel Fuel	51.9	20.4	52.2	21.3	63.8	22.8	47.0	87.4	48.2	89.6	60.7	90.4
Low Sulfur	53.7	13.8	53.9	14.5	65.5	14.8	47.6	72.9	48.7	75.4	61.1	75.0
High Sulfur	48.3	6.7	48.6	6.8	60.6	8.0	44.0	14.5	45.4	14.1	58.6	15.3
No. 4 Fuel^a	43.6	0.3	43.8	0.3	53.4	0.2	40.3	0.1	41.7	0.1	52.9	0.1
Residual Fuel Oil	31.8	13.2	31.7	14.4	40.3	10.9	29.4	14.5	30.3	17.4	35.8	8.0
Sulfur Content not > 1 %	37.6	3.0	35.9	3.5	45.3	2.7	31.9	4.7	32.9	6.5	36.6	2.7
Sulfur Content > 1 %	30.1	10.2	30.4	11.0	38.7	8.2	28.2	9.8	28.8	10.9	35.4	5.3

^a Includes No. 4 fuel oil and No. 4 diesel fuel.

Notes: Motor gasoline averages and totals prior to October 1993 include leaded gasoline.

Notes: Values shown for the current month are preliminary. Values shown for previous months are revised. Data are final upon publication in the *Petroleum Marketing Annual*.

Source: Energy Information Administration Form EIA-782A, "Refiners'/Gas Plant Operators' Monthly Petroleum Product Sales Report."

can be attributed to reports of an acute shortage of storage space, particularly in PADD II, and to the ongoing glut of product throughout international markets. Finished products prices tended to follow crude oil's lead. Downstream at the retail level, pump prices were substantially lower than those seen one year ago. Data indicate the average price for unleaded regular gasoline at the U.S. aggregate level was nearly 14 cents per gallon lower than the May 1997 price. Although the data show a slight month-to-month increase in price level, consumer purchases rose again this month. Data reflecting refiner sales of unleaded regular gasoline through company-operated outlets show a remarkable 14.7 percent increase from the May 1997 rate. In refinery news, problems at facilities in California that caused prices for CARB-

formulation gasoline to skyrocket during the second half of April were quickly addressed and high market values dissipated mid-May. The region's high product prices attracted cargoes from other areas still under sway of laden stocks, accelerating the decline in prices. The month closed with the prospect of more crude oil flooding the market and refining margins beginning to erode.

May market and sales activity for crude oil and the principal petroleum products are summarized in the following sections.

Crude Oil

The track of the daily spot price for West Texas Intermediate (WTI) crude oil at Cushing, Oklahoma during May reflected the effects of an oversupplied market. The price began at its high of \$16.25 per barrel and lost ground from that point forward. After losing ground gradually over the next few weeks, the price plunged after reports were released indicating stocks had reached a 5-year high. The month's low of \$13.01 per barrel occurred on May 19. Ending the month at \$15.21, the price was approximately \$1.00 lower than where it began.

- Average crude oil prices for May show only slight changes from April levels. The average domestic crude oil first purchase price fell 14 cents (1.2 percent), to \$11.50 per barrel.
- The average free-on-board (f.o.b.) cost of imported crude oil declined 23 cents (2.0 percent), to \$11.07 per barrel. The average landed cost of foreign crude oil dropped 36 cents (2.9 percent), to \$12.09 per barrel.
- The monthly average refiner acquisition costs for domestic crude oil rose 7.0 cents (0.5 percent), to \$13.54 per barrel. The average cost of imported crude oil to U.S. refiners decreased 19 cents (1.5 percent), to \$12.66 per barrel. The composite refiner acquisition cost of crude oil fell 8 cents (0.6 percent), to \$13.02 per barrel.

Petroleum Products

Motor Gasoline

Over the course of May, the daily spot price for unleaded regular gasoline at New York Harbor lost much of its initial pep, largely due to ongoing reports of ample stockpiles. The price reached the month's high of 52.4 cents per gallon on May 4, bolstered by the ongoing effects of refinery outages in late April. After drifting gradually downwards during the coming weeks, the price hit its low of 44.9 cents per gallon on May 20. Rebounding by the end of the month, the price closed at 47.8 cents per gallon.

- Continuing April's trend, monthly average prices for gasoline rose during May. The average price for motor gasoline retail sales by refiners

increased 3.6 cents per gallon to 71.0 cents per gallon while the average wholesale price rose 3.0 cents to 57.9 cents per gallon. Including data reported by a sample of motor gasoline marketers, the national average retail price at company-operated retail outlets climbed 3.0 cents to 70.1 cents per gallon. The average wholesale price increased 2.9 cents, to 58.4 cents per gallon. The average dealer tank wagon (DTW) price rose 3.6 cents to 64.6 cents per gallon. The average rack price climbed 2.6 cents to 56.5 cents per gallon. The average bulk sales price rose 1.2 cents, to 50.3 cents per gallon. The difference between reformulated and conventional gasoline prices increased to 4.7 cents at retail, and 7.7 cents at wholesale. The spread between conventional and oxygenated gasoline prices rose to 7.4 cents at retail and 7.7 cents at wholesale.

- Data reflecting sales of finished motor gasoline by refiners during May show minor changes from last month's levels. Total sales rose 400,000 gallons per day (0.1 percent), to an average of 375.6 million gallons per day. Retail sales increased 900,000 gallons per day (1.4 percent), while wholesales fell 500,000 gallons per day (0.2 percent). Rack sales accounted for 59.8 percent of total wholesales, while DTW and bulk sales made up 25.1 percent and 15.0 percent, respectively. Reformulated gasoline (RFG) comprised 31.0 percent of total motor gasoline sales, while oxygenated gasoline made up 2.0 percent of sales.

No. 2 Distillate

At New York Harbor, the daily spot price for No. 2 heating oil descended steadily over the course of May, reflecting high stock levels during a time of low demand for the product. Starting at the month's high of 45.7 cents per gallon, the price continued to fall until reaching the low of 38.6 cents per gallon on May 28. The price closed out the month at 38.8 cents per gallon, 7.1 cents lower than where it started May.

- No. 2 distillate prices fell in most sales categories during May. The national average residential price decreased 2.8 cents to 84.8 cents per gallon, while the average wholesale price dropped 1.2 cents to 47.3 cents per gallon. The average price for No. 2 diesel fuel at company-operated retail outlets rose 0.3 cent, while the average wholesale price fell 1.0 cent. The margins between low-

and high-sulfur diesel fuel prices were 0.8 cent at retail and 3.3 cents at wholesale.

- Refiner sales of No. 2 distillate were mixed during May. Total sales decreased 1.2 million gallons per day (0.9 percent), to 139.4 million gallons per day. Sales of No. 2 fuel oil rose 1.9 million gallons per day (6.4 percent) while sales of No. 2 diesel fuel dropped 3.1 million gallons per day (2.8 percent). Low-sulfur diesel fuel sales made up 80.4 percent of all refiner diesel fuel sales, and 62.2 percent of all refiner No. 2 distillate sales.

Residual Fuel Oil

- May monthly average residual fuel oil prices show slight decreases in most categories. Refiner prices for low-sulfur residual fuel rose 1.7 cents to 37.6 cents per gallon at retail but fell 1.0 cent to 31.9 cents per gallon at wholesale. Refiner high-sulfur residual fuel prices decreased 0.3 cent to 30.1 cents per gallon at retail and 0.6 cent to 28.2 cents per gallon at wholesale. Including data reported by the sample of residual fuel oil marketers, the average low-sulfur price remained flat at 36.4 cents per gallon at retail but decreased 1.3 cents to 32.1 cents per gallon at wholesale. The average price for high-sulfur residual fuel oil dropped 0.3 cent to 30.6 cents per gallon at retail, and 0.3 cent to 28.6 cents per gallon at wholesale.
- May sales of residual fuel oil by refiners dropped in all categories. Total sales decreased 4.1 million gallons per day (12.9 percent), to 27.7 million gallons per day. Low-sulfur residual fuel sales fell 2.3 million gallons per day (23.0 percent), while high-sulfur residual fuel sales dropped 1.9 million gallons per day (8.7 percent).

Other Products

- Other products prices generally fell during May. Refiner propane prices decreased 5.3 cents per gallon at retail, and 1.0 cent per gallon at wholesale. Including the sample of propane marketers, the average residential propane price increased 0.5 cent per gallon. The average end-user and wholesale prices for propane declined 3.0 cents per gallon and 1.2 cents per gallon, respectively. Kerosene-type jet fuel and aviation gasoline prices rose at both retail and wholesale. Prices for kerosene, No. 1 and No. 4 distillates declined at both levels.
- Refiner sales volumes for these products were varied during May. Sales of propane, kerosene, and No. 1 distillate decreased at retail and wholesale, while sales of aviation gasoline rose at both levels. Kerosene-type jet fuel and No. 4 distillate sales rose at retail but fell at wholesale.